

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation (U 905 G) a California corporation for authority to extend rate case cycle and implement attrition year adjustments in compliance with the Settlement Agreement in A.04-09-009.

Application 05-02-010
(Filed February 11, 2005)

**OPINION GRANTING AUTHORITY TO SOUTHWEST GAS CORPORATION
TO EXTEND RATE CASE CYCLE AND IMPLEMENT
ATTRITION ADJUSTMENTS**

Summary

Our decision today authorizes Southwest Gas Corporation (Southwest) to extend its general rate case cycle for two years, implement attrition adjustments for its Northern and Southern California Division customers, except for South Lake Tahoe customers, and freeze the existing base margin rates for South Lake Tahoe customers pursuant to a settlement agreement adopted in Decision (D.) 05-03-010¹ (Settlement Agreement).

¹ D.05-03-010 granted Avista Corporation (Avista) and Southwest authority for Avista to sell its South Lake Tahoe gas facilities to Southwest. Accordingly, Avista's South Lake Tahoe customers are now Southwest's customers.

Background

On February 11, 2005, Southwest filed Application (A.) 05-02-010 (Application) requesting authority to implement portions of the Settlement Agreement adopted in A.04-09-009. The Settlement Agreement requires Southwest to file a subsequent application that will: (1) extend the test year for Southwest's next general rate case (GRC) to 2009² and (2) allow Southwest to implement attrition adjustments for the years 2007 and 2008 in its Northern and Southern California Divisions consistent with the methodology adopted in D.04-03-034 (pp. 62-63). Furthermore, under the terms of the Settlement Agreement, South Lake Tahoe customers would not be subject to the attrition adjustments requested in this proceeding, and their existing base margin rates would be frozen through 2008.

Southwest states that for a number of reasons the relief requested in the Application is in the public interest. First, the requested relief benefits Southwest's Northern and Southern Division customers³ by providing rate certainty and minimizing rate volatility. Southwest explains that attrition adjustments are based on labor and non-labor inflation, and that the most recent estimates of consumer price increases⁴ for 2007 and 2008 are 1.7% and 1.9%, respectively. By comparison, the increases in rates adopted in Southwest's last GRC, which include many other operational costs, were 9.1% and 44.0% for

² In D.04-03-034, adopted March 16, 2004 (A.02-02-012), the Commission anticipated that Southwest's next GRC would be based on a 2007 test year. (*See* p. 75.)

³ These customers exclude South Lake Tahoe customers.

⁴ Inflation rates are based on estimates provided by Global Insight.

Southern and Northern California customers, respectively. Second, South Lake Tahoe customers benefit through the freezing of their existing base margin rates and exemption from the requested attrition adjustments in 2007 and 2008. Third, a delay in the filing of a new GRC will reduce the administrative costs for Southwest, as the attrition adjustments can be filed by advice letter rather than by a formal proceeding.

Southwest requests that the Application proceed on an *ex parte* basis without evidentiary hearings or written submissions from the parties. Southwest adds that the Office of Ratepayer Advocates (ORA) supports the Application.

No responses to Southwest's application have been received.

Discussion

In D.05-03-010,⁵ we noted that Southwest and ORA agreed that Southwest would, within 30 days, file a separate application to continue Avista's base margin rates in the South Lake Tahoe service territory for an additional two years beyond 2007. Furthermore, the separate application would request authority to extend the test year from 2007 to 2009 for Southwest's next GRC, implement attrition adjustments for the Southern and Northern California Divisions consistent with the method adopted in D.04-03-034, and exempt the newly acquired South Lake Tahoe service territory from attrition adjustments through 2008. As we explained in D.05-03-010, the Settlement Agreement and the implementation of these terms will result in significant economic benefits for customers, and will provide an incentive for Southwest to operate as efficiently

⁵ See pp. 4-5.

as possible.⁶ The instant Application fulfills those Settlement Agreement provisions.

We agree that South Lake Tahoe customers will benefit by the freezing of base margin rates and exemption from the attrition adjustments requested in the Application. Furthermore, Southwest's Southern and Northern California Division customers will benefit from the proposed two-year delay in the next GRC, as it is likely that the proposed attrition adjustment rate increases will be less than GRC rate increases. Finally, we note that the administrative costs for Southwest will be less as a result of delaying the next GRC, and the administrative burden placed on Commission staff resources will also be reduced.

Conclusion

For all of the foregoing reasons, we grant Southwest the authority to extend its general rate case cycle for two years to 2009 and implement attrition adjustments for Southern and Northern California Division customers in 2007 and 2008 consistent with the attrition approach approved in D.04-03-034. In granting Southwest this authority, Southwest will also freeze base margin rates for South Lake Tahoe customers, and not apply any attrition adjustments to South Lake Tahoe customers through 2008.

Categorization and Need for Hearings

In Resolution ALJ 176- 3148, dated February 24, 2005, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No responses to the Application

⁶ See p. 5.

have been received, and given this status, public hearing is not necessary and the preliminary determinations made in Resolution ALJ 176-3148 with regard to categorization and hearings should not be altered.

Waiver of Comments

Since this proceeding is uncontested and we grant the relief requested, pursuant to Section 311(g)(2), the otherwise applicable 30-day period for review and comment is waived.

Assignment of Proceeding

Dian Grueneich is the Assigned Commissioner and Bruce DeBerry is the Assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The Settlement Agreement requires Southwest to extend the test year for its next GRC to 2009 and provides that Southwest may implement attrition adjustments for 2007 and 2008 for Northern and Southern California Division customers.
2. South Lake Tahoe customers are exempt from any attrition adjustments through 2008.
3. Existing base margin rates for South Lake Tahoe customers are frozen through 2008.
4. It is likely that GRC rate increases would exceed rate increases due to attrition adjustments in 2007 and 2008, thus benefiting Southwest's Southern and Northern California customers.
5. A delay from 2007 to 2009 in the filing of the next GRC, will reduce administrative costs for Southwest, and for the Commission.
6. No responses to Southwest's application have been received.

Conclusions of Law

1. The Application implements provisions of the Settlement Agreement adopted in D.05-03-010.
2. This is a ratesetting proceeding.
3. There are no disputed issues of fact and therefore hearings are not necessary.
4. Since no one objected to Southwest's Application and this decision grants the relief requested, public review and comment are waived pursuant to Pub. Util. Code § 311(g)(2).
5. In order that ratepayers may immediately benefit from the relief granted in this Application, this decision should be effective today.

O R D E R

IT IS ORDERED that:

1. The February 11, 2005 application of Southwest Gas Corporation to delay its next general rate proceeding until 2009, implement attrition adjustments for Southern and Northern California customers for 2007 and 2008, exempt South Lake Tahoe customers from attrition adjustments in 2007 and 2008, and freeze the existing base margin rates for South Lake Tahoe customers through 2008 is approved.
2. This order is a final determination that a hearing is not needed in this proceeding.
3. Application 05-02-010 is closed.

This order is effective today.

Dated _____, at San Francisco, California.